

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-05 INR-07 L-03 ACDA-12
NSAE-00 PA-01 SS-15 PRS-01 SP-02 USIA-06 TRSE-00
OMB-01 NSC-05 /071 W
-----025592 020912Z /21

R 011658Z DEC 77
FM USMISSION USNATO
TO SECDEF WASHDC
INFO SECSTATE WASHDC 7887
USLOSACLANT NORFOLK VA
USNMR SHAPE BE

C O N F I D E N T I A L USNATO 12061

E.O. 11652: GDS
TAGS: MARR NATO
SUBJECT: US CONTRIBUTIONS FROM DEPARTMENT OF DEFENSE
FUNDS TO NATO PENSION SCHEME

REF: USNATO 5731, 210900Z JUN 77

SUMMARY. NATO WILL START TO CONVERT TO THE NEW PENSION SCHEME IN THE 1978 BUDGETS. CURRENT PLANS DO NOT ENVISION FUNDING OF THE ANNUAL OBLIGATIONS UNTIL PENSIONS ARE ACTUALLY PAID, THUS CREATING UNFUNDED OBLIGATIONS FOR FUTURE YEARS. WE BELIEVE THAT DOD WILL HAVE TO MAKE EXCEPTIONAL PROVISIONS TO ALLOW US TO AGREE TO NATO'S PROPOSED PROCEDURE. ACTION REQUESTED: WASHINGTON GUIDANCE PRIOR TO 14 DECEMBER 1977. END SUMMARY.

1. REFTEL REPORTS JOINT CIVIL AND MILITARY BUDGET COMMITTEE'S DISCUSSION ON BUDGETING FOR NATO'S CONVERSION FROM THE PROVIDENT FUND TO THE PENSION SCHEME. IN PARTICULAR PARA 1D STATES THAT NO REPEAT NO 14 PCT NATO CONTRIBUTION WILL BE MADE AFTER 1 JULY 77 FOR EMPLOYEES COVERED UNDER THE PENSION SCHEME.

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2. EFFECTS OF THE ABOVE DECISION WILL SHOW IN NATO PERSONNEL BUDGETS FOR 1978. WE ARE SEEING A REDUCTION OF 30 PCT IN THE AMOUNTS BUDGETED FOR THE EMPLOYER'S CONTRIBUTION TO THE PROVIDENT FUND ON THE BASIS OF THE INTERNATIONAL STAFF'S ESTIMATE THAT 30 PCT OF THE EMPLOYEES WILL BE UNDER THE PENSION SCHEME. THUS THE

1978 BUDGETS WILL SHOW A "SAVING" OF SOME 4.2 PCT (30 PCT OF 14 PCT) OF BASIC SALARY COSTS. THIS SAVING IS, HOWEVER, ILLUSORY SINCE, AS WE SEE IT, NATO (READ THE MEMBER NATIONS) IS TAKING AN OBLIGATION TO PAY WHATEVER PENSION COSTS RESULT FROM THE EMPLOYMENT OF THE PERSONNEL CONCERNED.

3. THE DIFFERENCE IN THE TWO SYSTEMS IS THAT UNDER THE PROVIDENT FUND THE ANNUALLY BUDGETED 14 PCT CONTRIBUTION REPRESENTED THE ENTIRE OBLIGATION OF NATO TOWARD EMPLOYEE RETIREMENT, WHILE THE PENSION SCHEME SYSTEM CURRENTLY CONSIDERED WILL NOT REQUIRE ANNUAL BUDGETING FOR OBLIGATIONS BUT ONLY FOR EXPENDITURES AS EMPLOYEES REACH PENSION AGE.

4. SINCE A MAJORITY OF THE 4300 NATO EMPLOYEES IS FUNDED THROUGH DEFENSE BUDGETS (1800 UNDER MILITARY BUDGET, 170 NICSMA PERSONNEL FROM INFRASTRUCTURE FUNDS, PLUS SOME 1200 IN NATO AGENCIES), WE ARE CONCERNED THAT DOD REGULATIONS MAY NOT PERMIT SUCH EXPENDITURE BUDGETING. IN OUR EXPERIENCE, WE HAVE BEEN REQUIRED TO HAVE BOTH CONGRESSIONAL AUTHORIZATION AND APPROPRIATION PRIOR TO ENTERING INTO FINANCIAL OBLIGATIONS IRRESPECTIVE OF THE EXPECTED PERIOD OF EXPENDITURE. IT APPEARS, THEREFORE, THAT DOD MUST BUDGET ANNUALLY FOR ITS SHARE OF THE PENSION COSTS AND ESTABLISH A CORRESPONDING SUSPENSE FUND
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EITHER WITHIN THE US GOVERNMENT OR HERE AT NATO. WE UNDERSTAND THAT SUCH A PROCEDURE WAS ADOPTED FOR A SIMILAR PROBLEM CONCERNING THE JAPANESE CIVIL WORK FORCE. WE HAVE, THEREFORE, REQUESTED THAT THE INTERNATIONAL STAFF INCLUDE IN EACH 1978 BUDGET A PRO MEMORIA ITEM REPRESENTING THE "SAVING" IN EMPLOYER CONTRIBUTIONS WHICH COULD BE USED BY NATIONS AS AN ESTIMATE OF THEIR OBLIGATIONS TO THE PENSION SCHEME PENDING MORE ACCURATE ACTUARIAL STUDY.

5. REQUEST DOD EXAMINATION OF THIS PROBLEM AND ADVICE/ INSTRUCTIONS PRIOR TO 14 DEC 77 WHEN 1978 BUDGETS SHOULD NORMALLY BE APPROVED BY THE DPC/NAC. BENNETT

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PENSIONS, FINANCIAL CONTRIBUTIONS
Control Number: n/a
Copy: SINGLE
Sent Date: 01-Dec-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977USNATO12061
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770447-0239
Format: TEL
From: USNATO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t197712103/aaaadjkh.tel
Line Count: 107
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 6be5cefb-c188-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 USNATO 5731
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 20-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 109106
Secure: OPEN
Status: NATIVE
Subject: US CONTRIBUTIONS FROM DEPARTMENT OF DEFENSE FUNDS TO NATO PENSION SCHEME
TAGS: MARR, US, NATO
To: DOD
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/6be5cefb-c188-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009